

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2021-22		FY 2022-23	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 310 seeks to change the inheritance tax in Nebraska. LB 310 sets a schedule for decreasing the amount that can be collected each year, raising the tax exempt amount, and reducing the tax rate each year. The following details the classification and schedule relating to inheritance tax collection.

For those receiving property and are related to the deceased as a parent, grandparent, spouse, child, or legally adopted child:

- Prior to Jan 1, 2022: 1% collected on the market value of property received by each person in excess of \$40,000
- During calendar year 2022: 1% collected on the market value of property received by each person in excess of \$150,000
- During calendar year 2023: 0.75% collected on the market value of property received by each person in excess of \$155,000
- During calendar year 2024, and each year after: 0.50% collected on the market value of property received by each person in excess of \$160,000, increasing by \$5,000 each calendar year after

For those receiving property and are related to the deceased as an uncle, aunt, niece, or nephew:

- Prior to Jan 1, 2022: 13% collected on the market value of property received by each person in excess of \$15,000
- During calendar year 2022: 11% collected on the market value of property received by each person in excess of \$60,000
- During calendar year 2023: 9% collected on the market value of property received by each person in excess of \$62,500
- During calendar year 2024, and each year after: 6% collected on the market value of property received by each person in excess of \$65,000, increasing by \$2,500 each calendar year after

In all other cases where beneficial interests are received:

- Prior to Jan 1, 2022: 18% collected on the market value of beneficial interests received by each person in excess of \$10,000
- During calendar year 2022: 15% collected on the market value of beneficial interests received by each person in excess of \$40,000
- During calendar year 2023: 12% collected on the market value of beneficial interests received by each person in excess of \$42,500
- During calendar year 2024, and each year after: 9% collected on the market value of beneficial interests received by each person in excess of \$45,000, increasing by \$2,500 each calendar year after

LB 310 would become operative three months after adjournment.

The Department of Revenue expects no fiscal impact to the General Fund or to the Department as a result of LB 310. There is no basis to disagree with this estimate.

The Nebraska Association of County Officials (NACO) estimates significant revenue loss to counties. Each county will see different fiscal impacts, but a survey of 14 counties, excluding Lancaster and Douglas, shows a \$284,000 revenue loss for each county in 2023 and a loss of \$495,000 in 2024, compared to the current inheritance tax rates. NACO projects that the loss in revenue by counties will need to be offset by an increase in property taxes. There is no basis to disagree with these estimates.

Douglas County estimates a tax revenue loss of \$8 to \$10 million (66-75%) each year as a result of LB 310. This would increase following the schedule provided by LB 310. There is no basis to disagree with this estimate.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE

LB: 310 AM: AGENCY/POLT. SUB: Nebraska Association of County Officials (NACO)

REVIEWED BY: Lee Will DATE: 01/27/2021 PHONE: (402) 471-4175

COMMENTS: No basis to disagree with NACO's assessment of revenue loss related to the changing in inheritance tax rates and exemption amounts.

State Agency Estimate

State Agency Name: Department of Revenue

Date Due LFO:

Approved by: Tony Fulton

Date Prepared: 2/11/2021

Phone: 471-5896

	FY 2021-2022		FY 2022-2023		FY 2023-2024	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds		\$ 0		\$ 0		\$ 0
Cash Funds						
Federal Funds						
Other Funds						
Total Funds		\$ 0		\$ 0		\$ 0

LB 310 changes the inheritance tax rate and exemption amounts for immediate relatives in Neb. Rev. Stat. § 77-2004 beginning January 1, 2022. The current rate and exemption will remain effective for decedents dying prior to January 1, 2022. The remaining inheritance tax rates and exemptions for immediate relatives are changed as follows:

- For decedents dying during the calendar year 2022, the rate is 1% and the exemption amount is \$150,000.
- For decedents dying during the calendar year 2023, the rate is 0.75% and the exemption amount is \$150,000.
- For decedents dying during the calendar year 2024 or any calendar year thereafter, the rate is 0.5% and the exemption amount is \$160,000; and the exemption amount changes each year.
- For each subsequent calendar year the exemption amount increases by \$5,000.

Section 2 changes the inheritance tax rate and exemption amounts for remote relatives in Neb. Rev. Stat. § 77-2005 beginning January 1, 2022. The current rate and exemption will remain effective for decedents dying prior to January 1, 2022. The remaining inheritance tax rates and exemptions for remote relatives are changed as follows:

- For decedents dying during the calendar year 2022, the rate is 11% and the exemption amount is \$60,000.
- For decedents dying during the calendar year 2023, the rate is 9% and the exemption amount is \$62,500.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>21-22 FTE</u>	<u>22-23 FTE</u>	<u>23-24 FTE</u>	<u>21-22 Expenditures</u>	<u>22-23 Expenditures</u>	<u>23-24 Expenditures</u>
Total							

- For decedents dying during the calendar year 2024 or any calendar year thereafter, the rate is 6% and the exemption amount is \$65,000; and the exemption amount changes each year.
- For each subsequent calendar year the exemption amount increases by \$2,500.

Section 3 changes the inheritance tax rate and exemption amounts for other transfers in Neb. Rev. Stat. § 77-2006 beginning January 1, 2022. The current rate and exemption will remain effective for decedents dying prior to January 1, 2022. The remaining inheritance tax rates and exemptions for other transfers are changed as follows:

- For decedents dying during the calendar year 2022, the rate is 15% and the exemption amount is \$40,000.
- For decedents dying during the calendar year 2023, the rate is 12% and the exemption amount is \$42,500.
- For decedents dying during the calendar year 2024 or any calendar year thereafter, the rate is 9% and the exemption amount is \$45,000; and the exemption amount changes each year.
- For each subsequent calendar year the exemption amount increases by \$2,500.

The operative date for this bill is three months after adjournment.

LB 310 will result in reduction in each county's collected inheritance tax at an indeterminable amount.

It is estimated that there will be no cost to the Department to implement this bill.

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2021

LB⁽¹⁾ 310

FISCAL NOTE

State Agency OR Political Subdivision Name: (2) Nebraska Association of County Officials (NACO)

Prepared by: (3) Elaine Menzel Date Prepared: (4) 1/14/2021 Phone: (5) 402.434.5660

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2021-22		FY 2022-23	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

LB 310 would negatively impact the collection of inheritance taxes by counties significantly in 2023 and into all future years. To analyze the impact as illustrated below, 675 individual worksheets were analyzed in 14 counties: Blaine, Box Butte, Brown, Buffalo, Deuel, Gage, Hamilton, Lincoln, Rock, Sarpy, Saunders, Valley, Wayne and York Counties. NACO would stress that this is a very small sample, does not include the two largest counties, and is a snapshot only for the year of 2019 and how it would impact the select 14 counties in 2023, 2024 and into the future. Inheritance taxes collected by counties can vary significantly year to year within each of the counties.

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Classes of Beneficiaries	Current Taxes Collected of 14 Counties	2023 rate*	2024 rate*	2025 rate*
Class 1	\$6,495,333.69	\$4,032,424.89	\$2,600,016.35	\$2,546,957.31
Class 2	\$1,916,063.19	\$1,149,284.37	\$ 643,591.71	\$ 615,707.71
Class 3	\$3,222,970.10	\$2,462,706.50	\$1,459,407.30	\$1,453,276.19
Total	\$11,634,366.98	\$7,644,415.76	\$4,703,015.36	\$4,615,941.21

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* If the rate for each class were taxed at the rate proposed for that tax year

Each year after 2025 would also be negatively impacted significantly and result in more collections resulting in zero dollars in several, if not most counties. The legislation does not propose any replacement revenue source; therefore, this reduction to counties would have to be made up through the property tax.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

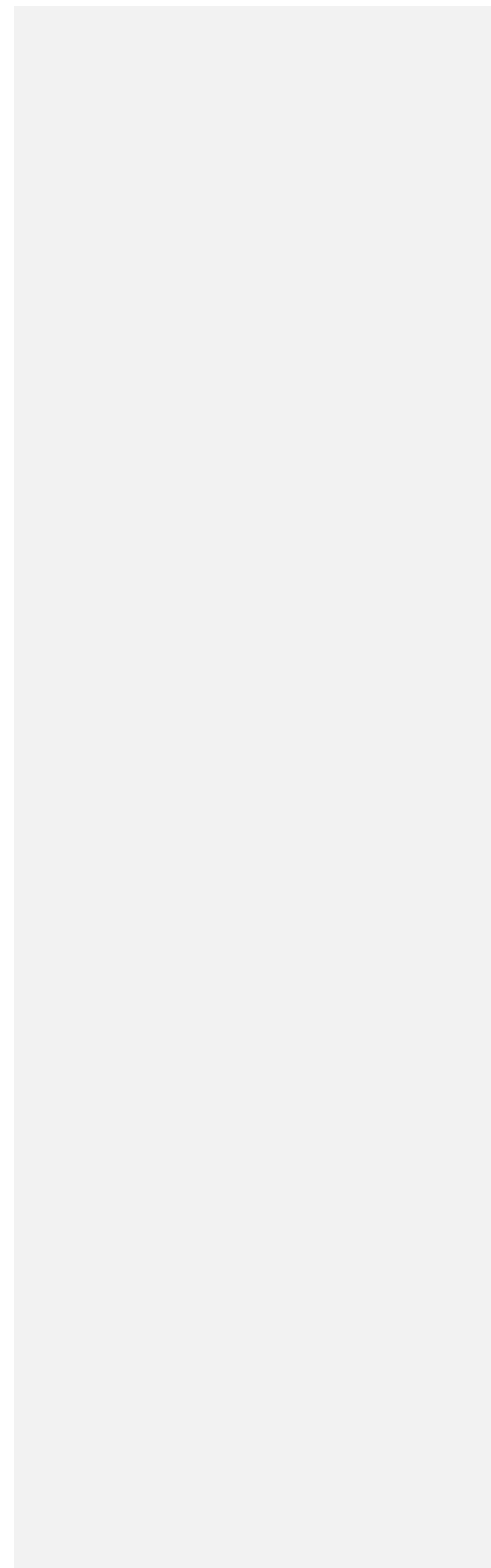
Personal Services:

POSITION TITLE	NUMBER OF POSITIONS		2021-22	2022-23
	21-22	22-23	EXPENDITURES	EXPENDITURES
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____

TOTAL.....

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2021

LB310⁽¹⁾ Change inheritance tax rates and exemption amounts

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ DOUGLAS COUNTY, NEBRASKA

Prepared by: ⁽³⁾ Joe Lorenz,
Director of Finance &
Budget

Date Prepared: ⁽⁴⁾ 2/12/2021

Phone: ⁽⁵⁾ 402-444-6825

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2021-22</u>		<u>FY 2022-23</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	LOSS
TOTAL FUNDS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>(\$8M-\$10M)</u>

Explanation of Estimate:

NEGATIVE (DETRIMENTAL) FISCAL IMPACT TO DOUGLAS COUNTY

The revisions proposed by LB310 will result in a significant loss of anticipated inheritance tax revenue to all counties.

Douglas County generally collects \$12 million to \$13 million in inheritance tax revenue annually. The combined impact of halving the tax rates and significantly increasing the amount of property value exempted from calculation, will result in a significant decrease in County inheritance tax revenues, estimated to be as much of a 66% to 75% loss in revenue, or roughly, a loss of \$8 million to \$10 million annually (leaving as little as \$2 million to \$4 million in remaining annual revenue).

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2021-22 EXPENDITURES</u>	<u>2022-23 EXPENDITURES</u>
	<u>21-22</u>	<u>22-23</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____